

# State and Local Government Activity

## The Postwar Experience Related to The National Economy

STATE and local government operations have been one of the major dynamic features of the U.S. economy in the postwar period, and currently continue to give support to the national output and income. The growth of general economic activity in turn has fostered the expansion of these public services by providing greater fiscal and financial resources.

State and local expenditures are expected to continue their rise in 1961, with purchases of goods and services reaching a total of \$51 billion for the calendar year, up \$3½ billion from 1960. In the fourth quarter of last year, these purchases were running at the annual rate of around \$49 billion. Receipts by State and local governments are likely to rise about \$4 billion over calendar 1960. These governments have had deficits in recent years, and these estimates of expenditures and receipts imply a further deficit of about \$3 billion in calendar 1961.

This article reviews the receipt and expenditure patterns of State and local governments within the national income framework to provide an evaluation of postwar trends. The activities of States are shown separately from those of local units, so that their respective contributions may be analyzed and the important role of intergovernmental payments brought into focus.

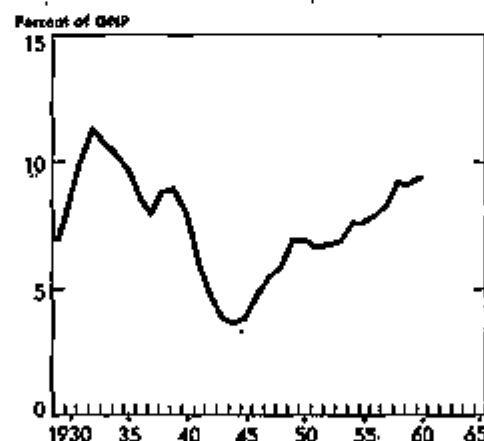
### Growth of Services and Capital Outlays

The expansion of non-Federal government outlays has been at an annual average of \$3 billion in the postwar period, a trend that continues at the present time. Goods and services comprise the preponderant portion of these expenditures and measure the part of the Nation's output used by these governments. In 1960, State and local purchases amounted to more than \$47 billion in terms of current prices com-

pared with \$15 billion in 1948 and \$7 billion in 1929. These outlays currently represent more than 9 percent of the gross national product, against 7 percent in 1929. This proportion was much lower in the immediate postwar period, mainly because of wartime restrictions on nonmilitary construction.

These governments provide many of the civilian nondefense governmental services of the community, and expenditures have been closely affected by the expanding requirements of our dynamic economy. State and local

### STATE AND LOCAL GOVERNMENTS Purchases of Goods and Services Related to Gross National Product



U. S. Department of Commerce, Office of Business Economics 81-3-16

purchases have not exhibited the cyclical swings shown by the total GNP in the postwar recessions, and have exercised a moderating influence in these periods.

### Factors affecting uptrend

Several factors of major importance have contributed to the expansion. Backlog demand for public construction, stemming from the curtailments of depression and war years, has been a pervasive element, and the problem of overcoming serious shortages of facilities is a continuing one.

The Nation's population increased more than 22 percent in the 12-year period, 1948-60—in sharp contrast with the little more than 20 percent increase in the 19-year period, 1929-48. The recent changes in selected age groups of particular significance for State and local governments have been even more rapid. From 1948 to 1960, the number of children of school age (5-17) increased by 50 percent, and the number of persons 65 years and over, by 37 percent.

The mobility of the population and the increased degree of urbanization have added greatly to the responsibilities of States and localities. The explosive growth in metropolitan areas is exemplified by the fact that two-thirds of the population increase for the entire country in the decade 1950-59 occurred in these areas, which grew from 83½ million to 100 million. Problems of adequately servicing these vast population centers, which overlap city, county, and in some cases State jurisdictions, have greatly magnified the traditional lines of expenditures and added an important array of new demands. These new and intensified demands occur in such fields as mass transportation, basic water supply, air purification, and sewage disposal.

Finally, in addition to the important underlying demand factors outlined here, the upward sweep of expenditures has also reflected the general rise in prices and wage costs in the postwar period.

### Rise in public assistance and pensions

In addition to purchases of goods and services, State and local government expenditures also take the form of transfer payments (money not derived from payments for current economic services) and net interest charges. Transfers are mainly for general public assistance which cur-

rently total \$3 billion annually, and pensions for retired employees of these governments, which amount to over \$1 billion.

Public assistance payments increased sharply in the great depression and have subsequently grown under the impetus provided by the Federal social security legislation calling for joint Federal-State-local participation in this field. Over the years, aid programs have been enlarged in scope, average benefit payments have followed rises in the cost of living, and the numbers requiring assistance have increased. The great increase in retirement benefits reflects the larger number of jurisdictions providing retirement systems, the sharp

increase in State and local employment, the rise in average earnings to which retirement pensions are related, and the increase in the contributory rates. (See chart on this page.)

#### Debt service up

Interest paid by State and local governments on their growing debt has increased from \$½ billion in 1948 to \$2 billion in 1960. This has been accompanied by a sharp rise in interest received by those governments on their investments in Federal, State, local, and corporate obligations. Net interest paid by all State and local governments has not changed markedly over the course of the postwar period, but the interest payments nevertheless represent a substantial outlay for the taxing authorities, especially the local governments.

When State and local government expenditures are looked at separately, it is also necessary to take into account intergovernmental payments—principally from States to localities—which currently constitute 30 percent of the total expenditures of State governments. These payments are highly significant in the financial structure of the recipient government, and are discussed below in the section on how expenditures are financed.

#### Broad classes of outlays

Table 1 shows the relative importance of each of the broad classes of expenditure, including intergovernmental payments, in the States and localities respectively.

Local government purchases of goods and services currently account for about two-thirds of combined State and local purchases, as regularly reported in the gross national product. As can be seen from the table these local government purchases constitute nine-tenths of their expenditures, whereas State outlays for goods and services represent only about three-fifths of the State total.

The unusually high proportion of transfer payments to total State outlays in 1948 seen in the table is attributable to payment of veterans bonuses in the early postwar period. These, of course, have declined to negligible proportions in later years. Other forms

Table 1.—Distribution of State and Local Government Expenditures

	1929	1948	1960
	Percent		
<b>States</b>			
Total.....	100.0	100.0	100.0
Purchases of goods and services.....	70.3	40.1	58.0
Transfer payments to persons.....	3.2	21.2	11.4
Net interest paid.....	.7	— .0	— .6
Payments to local governments.....	19.8	38.7	30.6
<b>Local governments</b>			
Total.....	100.0	100.0	100.0
Purchases of goods and services.....	88.6	85.3	90.7
Transfer payments to persons.....	2.4	8.1	5.7
Net interest paid.....	8.3	2.7	2.6
Payments to State governments.....	.8	.8	1.0

Source: U.S. Department of Commerce, Office of Business Economics.

of transfer payments by both State and local governments have increased at about the same rates.

#### Composition of public services

The distribution of expenditures by function is shown separately for States and localities in table 8; 1959 is the latest year for which detailed data can be derived. For States, the table shows, in addition to a breakdown of direct expenditures, the functional distribution of their payments to local governments. The chart on page 18 indicates for each major function performed the relative importance of the direct outlays by States and by local units.

The distribution of functional outlays has remained fairly stable in the

Table 2.—Distribution of State and Local Government Receipts

	1929	1948	1960
	Percent		
<b>States</b>			
Total.....	100.0	100.0	100.0
Taxes and non taxes.....	91.4	77.1	72.1
Contributions for social insurance.....	1.6	4.8	6.8
Current surplus of government enterprises.....	.7	2.0	2.0
Federal grants-in-aid.....	4.3	16.1	17.8
Local government payments.....	2.0	1.0	1.4
<b>Local governments</b>			
Total.....	100.0	100.0	100.0
Taxes and non taxes.....	87.0	62.8	53.3
Contributions for social insurance.....	1.4	2.0	3.1
Current surplus of government enterprises.....	3.7	6.9	4.9
Federal grants-in-aid.....	.3	4.2	4.0
State government payments.....	6.8	24.7	24.7

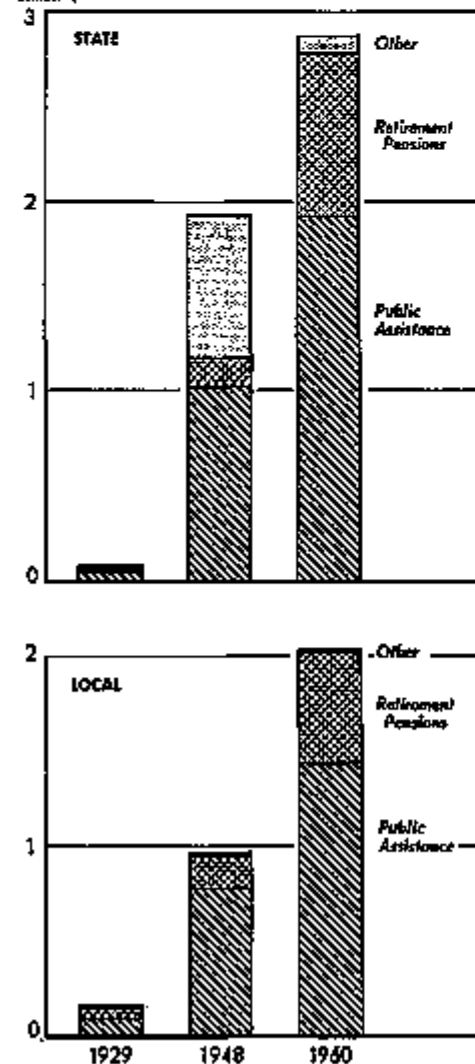
1. Sum paid directly to local units, plus funds channeled through States.

Source: U.S. Department of Commerce, Office of Business Economics.

## STATE AND LOCAL GOVERNMENTS

### TRANSFER PAYMENTS Go Mostly for Public Assistance

Billion \$



**Table 3.—Distribution of State and Local Government Taxes and Nontaxes**

	1929	1948	1950	1929	1948	1950
	Billions of dollars			Percent		
<b>States</b>						
Total.....	2.1	3.5	18.9	100.0	100.0	100.0
Sales.....	.4	3.7	8.7	19.5	48.8	45.9
Income.....	.3	1.2	3.1	13.2	35.0	16.4
Motor vehicle.....	.3	.6	1.6	15.8	8.2	8.7
Excises.....	.3	.2	.6	10.2	3.0	3.3
Property.....	.3	.2	.4	7.7	2.4	2.0
Death and gift.....	.4	1.9	3.0	18.0	15.3	15.8
Other taxes.....	.2	.5	1.5	9.9	0.1	8.1
Nontaxes.....						
<b>Local governments</b>						
Total.....	5.2	7.5	20.3	100.0	100.0	100.0
Property.....	4.3	5.8	15.4	83.7	77.9	75.1
Sales.....	.6	.4	1.1	6.9	5.9	5.8
Income.....	.1	.1	.3	1.7	.7	1.3
All other taxes.....	.1	.3	.7	2.5	4.0	3.4
Nontaxes.....	.7	.9	2.8	13.2	12.1	13.8

NOTE.—Comparable data are available on request for 1940, 1942, 1947, 1949-50.

SOURCE: U.S. Department of Commerce, Office of Business Economics.

postwar period. At the State level, the principal shifts that occurred were in two areas: Highway outlays rose from less than one-fourth to one-third of the direct expenditure totals, and veterans benefits declined from one-tenth to less than 1 percent. Public assistance had increased sharply in relative importance in the prior period,

advancing from 3 percent of State outlays in 1929 to one-sixth in 1948. Other principal elements of contrast between the 1929 and 1948 patterns were the rise in veterans benefits and the decline in highway expenditures.

In the case of local governments, there was an increasing emphasis on educational outlays during the postwar period. The relative importance of these rose from 36 percent to 42 percent for the most recent year. In the period prior to 1948, the change in pattern was similar to that shown for the States, with public assistance increasing in relative importance and street and road expenditures declining.

The largest component of expenditures—purchases of goods and services—may also be analyzed in terms of broad object categories: compensation of general government employees, new construction put in place, and all other purchases. (See table 9.)

#### *Payrolls comprise half of purchases*

To provide the services rendered, State and local governments employ over 5 million persons (full-time equivalent

employees), or roughly 1 out of every 12 workers in the country. About 40 percent of this number are engaged in school activities. In the aggregate, these governments constitute a larger employer than the Federal Government—including in the latter both civilian and military personnel; they employ a working force that is almost one-third as large as the total employment in all manufacturing industries.

Direct payroll costs in the form of wages and salaries and fringe benefits make up approximately half of the total purchases of goods and services by these units. The total compensation of the combined jurisdictions in 1960 amounted to over \$25 billion (or 8½ percent) of the total national payroll; in 1948, it amounted to \$8½ billion and represented 6 percent of the national total. (See chart on page 19.)

Both employment and average earnings have mounted rapidly. The latter showed a larger percentage rise, and accounted for more than half of the total increase in compensation over the period.

#### *Major role of construction*

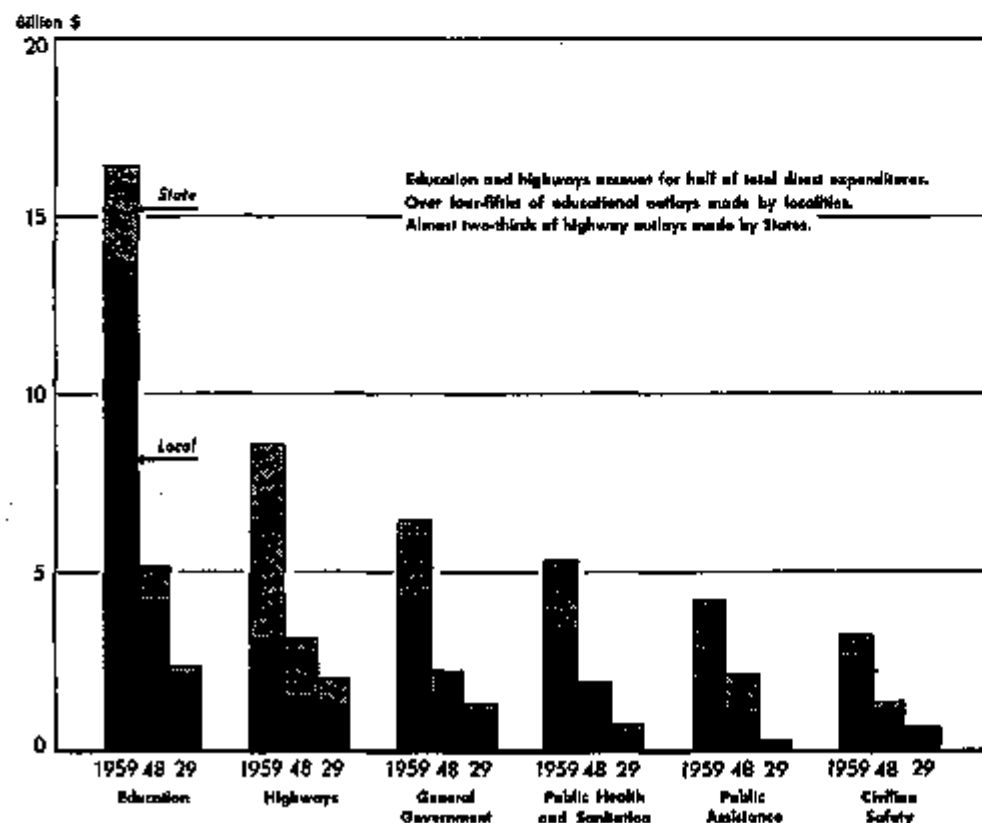
In addition to being one of the largest employers of labor, State and local governments are also a major investor in capital goods. Collectively, their construction projects in 1960 represented over one-fifth of new construction put in place for the Nation as a whole.

The building of new highways and improvement of existing roads and streets accounts for almost half of total State and local construction. Such highway activity comprises about four-fifths of all State construction, but only about one-sixth of the local total. The next largest category is for educational purposes. This type of construction rose rapidly after the end of World War II but has ranged around \$2½ billion a year since 1955. Local governments account for four-fifths. They are also responsible for much of the remainder, currently expending about \$3 billion annually for sewer and water improvements, hospitals, and miscellaneous public building.

Despite the appreciable growth in construction activity, community needs

### STATE AND LOCAL GOVERNMENTS

#### Expenditures by Major Categories



are mounting so much more rapidly that formidable pressures still persist. It is in this important area that further expansion may be most likely, depending in large measure, of course, on the financial resources that can be mustered.

In addition to compensation for personal services and construction outlays, State and local governments expended over \$9½ billion in 1960, or one-fifth of total purchases, for equipment, utility services, and the vast array of other goods necessary to carry on the general housekeeping functions of government. While comprehensive information on the composition of these purchases is not at hand, available data indicate that \$1 billion out of the \$9½ billion represented outlays for major equipment items, such as motor vehicles, school and office furniture, and the like.

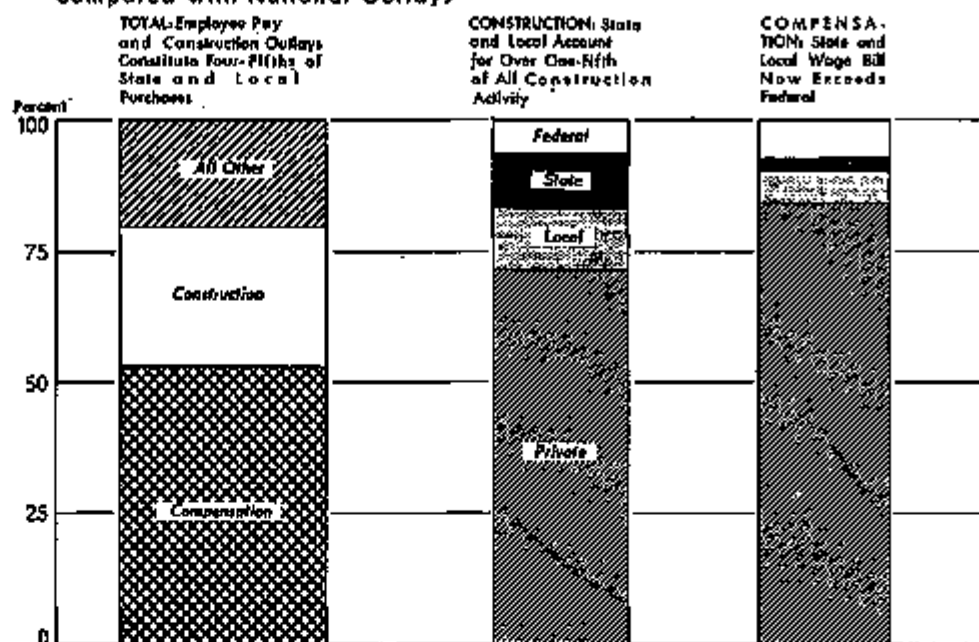
### How Expenditures Are Financed

Financing the burgeoning volume of expenditures has posed serious problems for State and local authorities, and imposed considerably enlarged tax burdens on individuals and other taxpayers. These governments entered the postwar period with a substantial accumulation of reserves, stemming from the excess of tax and other receipts over expenditures during wartime. In the subsequent period, however, expenditures soon outstripped the advances in taxes, even though dramatic increases occurred in the major revenue sources—income, sales, and property taxes—from 1948 to 1960. Despite these advances however, State and local governments have had to rely heavily on intergovernmental grants (including large Federal payments) and on borrowing.

Along with the marked increases in taxes in the postwar period, there have also been appreciable advances in contributions for social insurance and in the current surplus of government enterprises. Together these account for about one-tenth of total receipts in 1960. Contributions for social insurance—currently \$2½ billion—finance retirement and sickness benefits for State and local government employees. These receipts have increased sub-

## STATE AND LOCAL GOVERNMENT PURCHASES OF GOODS AND SERVICES, 1960

Relative Composition of State and Local Purchases Compared with National Outlays



U. S. Department of Commerce, Office of Business Economics

61-2-16

Table 4.—Distribution of Direct Expenditures Financed by Receipts from Other Governments and from Own Resources

	1950				1948				1939			
	Percent financed by—				Percent financed by—				Percent financed by—			
	Total	Intergovernmental receipts		Own resources	Total	Intergovernmental receipts		Own resources	Total	Intergovernmental receipts		Own resources
		Federal	Local			Federal	Local			Federal	Local	
States												
Total direct expenditures.....	100	0	3	91	100	22	2	70	100	31	2	67
General government.....	100			100	100			100	100			100
Health, education and welfare.....	100	1	6	93	100	20	3	72	100	22	1	70
Public assistance.....	100	n.a.	n.a.	n.a.	100	64	4	32	100	60	2	38
Education.....	100	n.a.	n.a.	n.a.	100	3		97	100	4		96
Commerce and housing.....	100	10	1	80	100	22	2	70	100	23	2	44
Highways.....	100	11	3	87	100	23	2	70	100	26	2	42
Agricultural and natural resources.....	100	21		79	100	15		85	100	16		84
1950												
Percent financed by—												
	Total	Intergovernmental receipts		Own resources	Total	Intergovernmental receipts		Own resources	Total	Intergovernmental receipts		Own resources
		Federal	State			Federal	State			Federal	State	
Local governments												
Total direct expenditures.....	100		0	94	100	4	25	71	100	4	22	74
General government.....	100		1	90	100	1		90	100	1		99
Health, education and welfare.....	100		10	90	100	4	25	71	100	6	25	60
Public assistance.....	100			100	100	20		80	100	27	24	20
Education.....	100		10	84	100		34	66	100	2	35	65
Commerce and housing.....	100		2	98	100	1	26	74	100	1	23	77
Highways.....	100		2	98	100		33	68	100	1	36	63
Agriculture and natural resources.....	100			100	100	2	1	97	100	5	2	93

NOTE.—Intergovernmental receipts are related to expenditures as defined for national income purposes, and hence the percentage relationships shown may differ somewhat from those obtained when other budgetary definitions of expenditures are used. See note on source material at end of this article.

SOURCE: U.S. Department of Commerce, Office of Business Economics.

Table 5.—State and Local Governments: Sources and Uses of Funds

(Billions of dollars)

	1948-50	1951-53	1954-56	1957-59
	(Average of three fiscal years)			
<b>Total Sources.....</b>	<b>2.2</b>	<b>2.7</b>	<b>4.4</b>	<b>3.2</b>
Surplus or deficit (— on income and product account).....	-.2	-.1	-.7	-1.6
Pension funds.....	.6	.8	1.2	1.7
General and other funds.....	-.9	-1.0	-1.9	-2.3
<b>Borrowing.....</b>	<b>2.6</b>	<b>2.9</b>	<b>3.1</b>	<b>4.0</b>
<b>Total Uses.....</b>	<b>2.0</b>	<b>2.7</b>	<b>4.0</b>	<b>3.6</b>
Financial assets.....	1.0	2.3	3.1	2.4
Demand deposits.....	.5	.4	.5	-.1
Time deposits.....	.2	.1	.3	.4
U.S. Treasury securities.....	.6	1.1	1.2	.3
Corporate and other securities.....	.1	.4	.8	1.3
State and local securities.....	.3	.2	.4	.5
Purchases of land and existing structures, net.....	.3	.4	.8	1.2
Errors and omissions.....	.3	.0	.4	-.4
<b>Addendum:</b>				
New construction and equipment.....	3.1	7.4	10.0	12.8

Sources: U.S. Federal Deposit Insurance Corporation; U.S. Treasury Department; U.S. Department of Commerce, Bureau of the Census, and Office of Business Economics. Three-year averages have been used to help overcome problems of timing arising from the diverse source materials used.

stantially over the years. The current surplus of government owned enterprises has been a fairly stable proportion of total receipts. A major portion of this surplus, about three-fourths in 1960, is derived from the utility-type enterprises owned by local governments.

#### Taxes rise, but proportion of receipts declines

The relative importance of tax and related revenues (nontaxes<sup>1</sup>) in State financing declined in the postwar period—from 77 percent in 1948 to 72 percent in 1960—primarily as a result of a further stepup in Federal grants. For localities the proportion of taxes and related revenues has remained stable at about two-thirds of the receipts total. In 1929 these proportions were much higher for both State and local governments, as intergovernmental financing was much less extensive in that year. (See table 2.)

In aggregate, the revenues derived from taxes and nontaxes have been about equally divided between State and local units during the postwar period. In 1929 States received less

than one-third of the combined tax total, and according to Census historical data, the State proportion was less than one-fifth around the turn of the century. Although similar in total, State, and local taxes are drawn from quite different tax sources.

#### Pattern of State taxes

Sales taxes provided almost half of the \$19 billion State total in 1960—roughly the same proportion as in 1948. (See table 3.) The revenue from general sales taxes amounted to about \$4 billion in 1960, gasoline taxes contributed an additional \$3 billion, and the balance, \$1½ billion, was divided between liquor and tobacco taxes. The next three largest tax revenue producers—personal income tax, motor vehicle licenses, and corporation profits taxes—each produced between 7 and 10 percent of the State tax total. The remainder of the tax receipts—about 20 percent—includes, in addition to property taxes (principally property

other than real estate) and death and gift taxes, such diverse revenue sources as gross receipts taxes, licenses, permits, and severance taxes which are not separately classified.

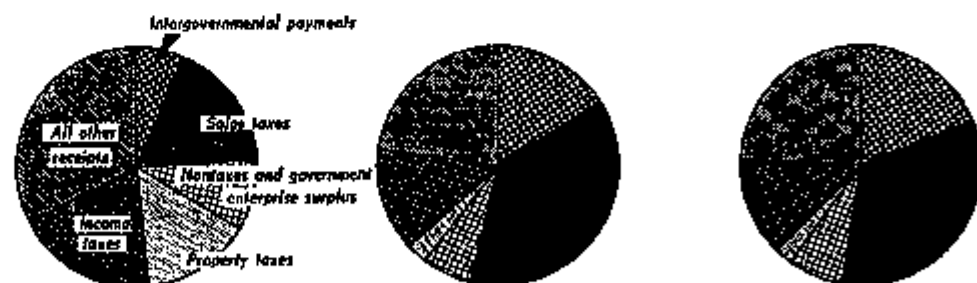
State tax revenues have increased substantially in the postwar period, reflecting the upsurge of incomes and consumer spending. These increases in the tax base were insufficient in themselves to produce the additional revenues necessary to cover requirements and tax rates were increased and new revenue sources sought.

Despite the continued efforts of State legislatures to tap new revenue sources, and to increase the yield of existing ones, the overall composition of taxes has shown little change over the period since 1948. As compared with 1929, the current distribution shows a heavier reliance on sales taxes, and personal income taxes, while property, motor vehicle, and death and gift taxes have declined somewhat in relative importance. (See following chart.)

### STATE AND LOCAL GOVERNMENTS: Patterns of Receipts

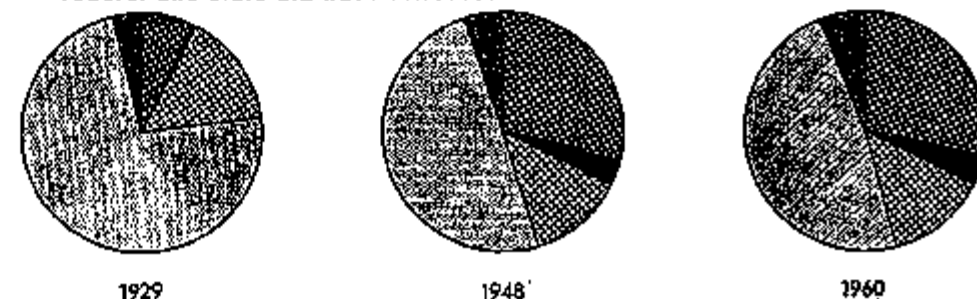
#### STATE

Sales taxes and Federal aid have increased in importance since 1929  
In postwar period about half of receipts derived from sales and income taxes



#### LOCAL

Dependence on property tax has decreased since 1929  
Federal and State aid have increased



1929

1948

1960

1. Taxes are distinguished from nontaxes in that the former are compulsory payments to finance public needs, while the latter are payments made by recipients of specific goods and services provided by general government, such as tuition payments to State universities, fees charged by government hospitals, rents, royalties, fines, and penalties.

**Table 6.—Gross Operating Revenue and Expenditures of Government Enterprises**

(Billions of dollars)

	1929	1948	1960
<b>State enterprises:</b>			
Gross operating revenue.....	0.0	1.1	1.8
Gross operating expenditures.....	.0	.8	1.4
Current surplus.....	.0	.2	.5
<b>Local enterprises:</b>			
Gross operating revenue.....	.6	1.9	4.3
Gross operating expenditures.....	.8	1.3	2.7
Current surplus.....	-.2	.6	1.6

Sources: U.S. Department of Commerce, Bureau of the Census, and Office of Business Economics.

**Pattern of local taxes**

Local government tax receipts are much more concentrated, with continued heavy reliance on property taxes. In 1960, property taxes alone accounted for three-fourths of total tax and nontax receipts with the next largest tax source—sales taxes—contributing less than 6 percent, and all other taxes together 5 percent. Nontaxes at the local level are a significant revenue source, providing almost 14 percent of the total. These are comprised of such items as special assessments for property improvement, hospital, tuition, recording fees, and sanitation charges.

Real property taxes are levied almost exclusively by local governments, and in 1929 virtually all local taxes were derived from this source. Under pressures for additional tax revenue, some localities had by 1948 begun to levy sales and income taxes. The relative importance of these revenues, 5 percent and 1 percent respectively, has not changed over the course of the postwar period, with the result that the 1948 and 1960 compositions of tax and nontax receipts are virtually the same.

As compared with 1929, State tax receipts have risen more rapidly than those of local units, which is in line with the traditional view that tax receipts from real estate will lag behind other revenue sources more closely attuned to changing levels of economic activity. In the postwar period, however, local taxes have kept pace with those of the States, and this is mainly attributable to the tremendous growth in urban and suburban areas which have brought into the real estate base a large volume of high

value property, and to advancing tax rates.

**Major role of intergovernmental assistance**

Intergovernmental assistance<sup>2</sup> covered about one-third of the total direct outlays of State governments, and about one-fourth of the local outlays in 1959, the last year for which detailed information is available.

This is shown by the chart on this page which also brings out that on balance localities were the only net recipients of intergovernmental assistance, because for States intergovernmental payments exceeded intergovernmental receipts.

Table 4 summarizes separately for State and local governments the proportions of the outlays for various types of broad functions financed by intergovernmental assistance. It also shows for each of these functions the residual covered from the resources of the jurisdictions making the outlays—taxes and related receipts and borrowing.

As important as these payments are in relation to total outlays, their major role in financing particular functions is even more striking. In the case of the States, assistance from the Federal Government provides three-fifths of the outlays for public assistance, and more than half of the highway total. For local governments, intergovernmental payments cover one-third of education outlays—the largest component in the local budget—three-fifths of the public assistance outlays, and about two-fifths of the expenditures for roads and streets.

**Development of Federal aid**

Largely due to social security grants, the relationship of Federal assistance to total State and local receipts rose from 1½ percent in 1929 to 8½ percent at the outbreak of World War II. By 1948 total Federal grants had risen to \$2 billion, with public

2. This assistance can take the form of grants or of a sharing of specific revenues by the collecting government with its political subdivisions. Partly due to the difficulties involved in many cases in specifying the geographic origin of the revenue to be shared, and partly because of the desire to recognize the varying needs of different localities, shared taxes have tended to slide imperceptibly into outright grants. The Census of Governments does not find it practicable to maintain the distinction on an aggregate basis, and this review follows their practice in combining the two in intergovernmental payments.

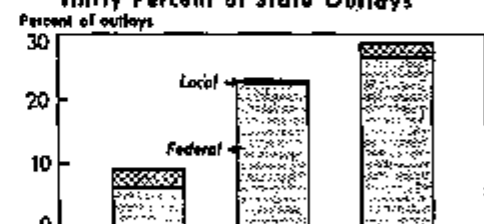
assistance programs accounting for 50 percent of the total.

Support for highway improvement, which had dropped off during the war years with the curtailment of construction, accounted for one-fifth of the 1948 grant total. Highway aid rose steadily in the years immediately following, and spurted sharply after 1956 with the initiation of the interstate highway program. In the period 1956–60, the Federal Government has made available to the States a total of more than \$9½ billion for highway purposes. Five billion dollars went to finance the new interstate system and \$4½ billion was expended to support the longstanding primary and secondary highway and road programs.

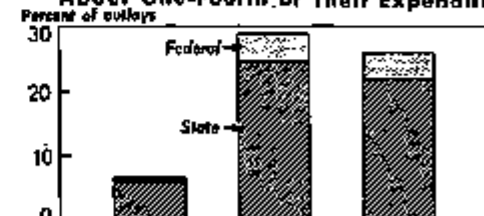
The Federal Government has also extended assistance for a wide array of other activities. The combined outlays for all of these purposes amounted to \$½ billion in 1948, and are currently about \$1 billion higher. The principal advances have occurred in grants for

**INTERGOVERNMENTAL FLOWS**

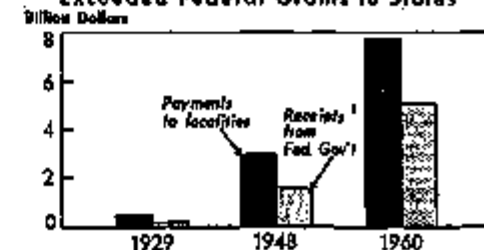
State Receipts From Other Governments Have Risen And These Currently Are Used to Finance About Thirty Percent of State Outlays



For Local Governments, Receipts From All Other Governments Constitute About One-Fourth of Their Expenditures



State Payments to Localities Have Exceeded Federal Grants to States



1. Includes small amounts of local payments to States

school operation and construction in federally affected areas, defense educational activities, public health services, employment security administration, and atomic energy research.

#### State help to localities

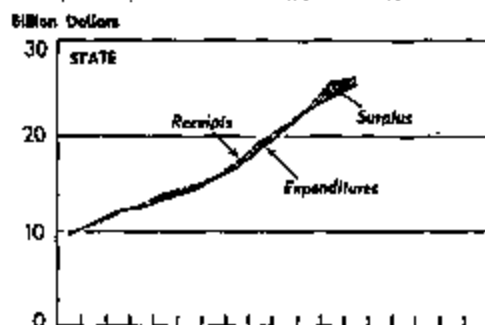
State governments have recognized from the outset their need to assist local governments in providing public education, and education has remained up to the present time the dominating portion of State assistance to localities.

State highway aid developed later as the need arose for arterial highway systems going beyond the borders of local jurisdictions, with the recognition by the States that these responsibilities were beyond the scope of the local units.

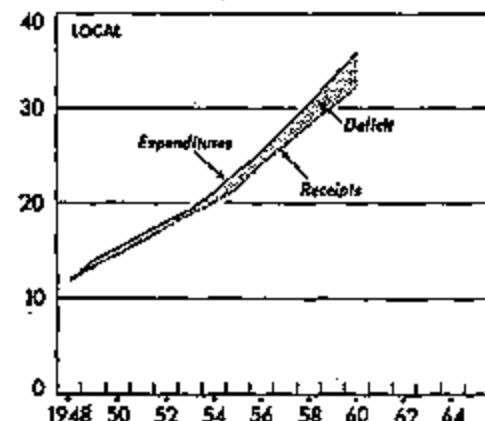
Public assistance is the third major local function receiving State support, and like its Federal counterpart, State assistance shot up during the depression period as States came to the aid of hard-pressed localities. As an outgrowth of the Federal social security legislation,

### FISCAL POSITION OF STATE AND LOCAL GOVERNMENTS

For Most of the Postwar Years  
States have shown Surpluses  
on Income and Product Basis



but Local Governments show  
Deficits in all years



U. S. Department of Commerce, Office of Business Economics 81-3-22

States have also instituted continuing programs of local welfare assistance.

State payments to localities have also supported a host of additional programs which are individually rather small, and in total have amounted to about \$½ billion a year, registering little change in the aggregate since 1948.

#### Debt up threefold since 1948

The growing deficits in State and local fiscal operations reflect in considerable measure the expanding volume of construction and related equipment expenditures which are debt-financed to a large degree. In contrast to the war period when this type of expenditure was sharply curtailed and States and localities were able to reduce their outstanding indebtedness, the 1948-60 period has witnessed a more than threefold expansion in both the volume of heavy capital outlays and of debt. The latter has risen from \$18½ billion in 1948 to \$57 billion in 1960, with local governments accounting for about three-fourths of the borrowing. The total debt increased at an annual average rate of 2½% billion in the first half of this period, and has been advancing at a rate of \$5 billion a year in the latter half.

In recent years the annual gross volume of bonds issued exceeded the publicly offered bond issues of all U.S. corporations, and was second only to that of the U.S. Treasury. The scale of those operations has expanded the specialized market for State and local obligations, facilitating the flotation of new issues, and the purchases and sales of existing ones. Investors have been drawn increasingly into this market because the interest income is exempt from Federal income taxation.

The largest proportion of the new bond issues in the past several years has been raised for school construction; three-tenths of the borrowing last year was for this purpose. Funds for water, sewer, and other utilities have been second, and for roads and bridges, third. Borrowing for highways was of greater importance earlier in the 1950's, when toll road construction was advancing at a rapid rate; this type of construction, however, has dwindled with the introduction of the interstate highway grant program.

Table 7.—State and Local Government Receipts and Expenditures

(Millions of dollars)

	1949	1948	1953	1957	1960
<b>State government receipts</b>	2,280	5,871	14,817	21,243	28,200
Taxes and nonrevenue	2,148	7,614	11,401	15,574	18,900
Contributions for social insurance	88	473	641	1,481	1,800
Current surplus of government enterprises	16	104	292	498	500
Federal grants-in-aid	103	1,483	1,002	2,088	4,800
Local government payments	48	87	191	427	600
<b>State government expenditures</b>	2,028	9,516	14,225	20,574	28,700
Purchases of goods and services	1,547	4,793	7,040	11,022	14,800
Transfer payments to persons	63	1,932	1,985	2,420	2,900
Net interest paid	14	—81	—128	—187	—185
Interest paid	96	83	178	374	500
Less: Interest received	84	164	800	561	700
Payments to local governments	402	2,910	4,713	6,380	7,700
Surplus or deficit (—) on income and product account	322	206	592	600	900
<b>Local government receipts</b>	4,943	11,770	18,788	26,070	32,100
Taxes and nonrevenue	4,187	7,509	11,747	16,200	20,200
Contributions for social insurance	83	230	418	817	1,000
Current surplus of government enterprises	210	622	931	1,405	1,000
Federal grants-in-aid	15	400	800	1,048	1,900
State government payments	402	2,910	4,713	6,380	7,700
<b>Local government expenditures</b>	4,353	11,814	19,088	27,636	35,800
Purchases of goods and services	3,029	10,438	17,221	24,009	32,800
Transfer payments to persons	183	608	1,223	1,880	2,600
Net interest paid	528	324	453	594	600
Interest paid	475	457	808	1,025	1,500
Less: Interest received	147	133	183	720	900
Payments to state governments	48	97	101	427	400
Surplus or deficit (—) on income and product account	—480	—44	—320	—1,570	—3,800

L. The treatment of this item differs from that in the regularly published national income account table in that it is classified here as a receipt rather than as a negative expenditure.

Notes.—Comparable data are available on request for 1940, 1942, 1947, 1949-52, 1954-55, 1958, and 1959.

Source: U.S. Department of Commerce, Office of Business Economics.

The carrying charges of the expanded volume of debt are a combination of interest and debt amortization. The interest paid has risen from \$½ billion in 1948, to \$2 billion last year, reflecting advances in interest rates as well as in the volume of debt. Data on amortizations are not separately available, but indirect measures of debt retirements suggest that the proportion of interest paid and amortization to total State and local receipts has shown little change from 1948 to 1960. The future needs for construction imply that borrowing on a substantial scale will continue, unless tax revenues and intergovernmental payments can be increased sufficiently to bridge the gap. A further expansion of debt, however,



is subject to difficulties arising from legal limitations on State and local authorities to incur debt, and voters' approval where required.

The State and local government deficit on income and product account is not equivalent to the change in outstanding debt, mainly because the receipts and expenditures on which it is based exclude changes in financial assets and land transactions. Moreover, it should be noted that the deficit is a consolidated figure which includes the operations of the important pension trust funds. Since these funds operate at a surplus, the deficit resulting from all other government activities is ap-

preciably greater than that indicated by the consolidated deficit. This larger deficit for all activities excluding the pension trust funds may be a better indicator of financial pressures, because trust fund surpluses finance government operations only to the extent that they are invested in State and local obligations. The State pension fund surpluses are particularly important, and are largely responsible for the overall surplus on income and product account that is shown for State governments in table 7 and the chart on page 22.

Table 5 shows the relationships among the deficit, borrowing, and the

changes in financial and other assets involved. As can be seen, along with increased borrowing States and localities have also increased their holdings of financial assets. This is attributable to several factors. The accumulated surpluses of pension and other trust funds are invested in this type of asset. Additionally, the flotations of bond issues generally precede the expenditure of the funds raised so that these governments have on hand at any given time a considerable volume of unexpended sums which are held on deposit or invested in income-producing securities. Finally, liquid balances have necessarily increased as a consequence

Table 3.—State and Local Expenditures by Type of Function

(Millions of dollars)

	1948							1950						
	State			Local				State			Local			
	Total	Pay- ments to local govern- ments	For own purpose			Total	Pay- ments to local govern- ments	Total	Pay- ments to local govern- ments	Total	Pay- ments to local govern- ments	For own purpose		
			Total	Pur- chases of goods and services	Transfer pay- ments and net interest paid							Total	Pur- chases of goods and services	Transfer pay- ments and net interest paid
Total.....	9,579	2,918	5,456	4,796	1,871	11,814	10,145	1,282	21,590	7,952	14,725	14,114	2,612	12,137
General government.....	618	6	605	614	91	1,564	1,666	496	2,904	5	2,957	1,441	634	1,313
General administration.....	268	5	263	263	—	613	613	—	631	9	625	625	—	1,384
General property and records man- agement.....	20	—	20	20	—	130	130	—	106	—	106	106	—	419
Central personnel management and employment costs.....	310	—	310	167	182	411	207	174	1,282	—	1,282	619	771	1,530
Net interest paid.....	-41	—	-41	—	-41	321	—	321	-155	—	-155	—	—	842
Other.....	34	—	34	—	—	47	47	—	69	—	69	69	—	129
Health, education, and welfare.....	4,046	1,883	3,183	2,146	1,037	7,494	5,770	784	58,079	5,375	7,704	5,737	1,967	21,745
Public health and sanitation.....	770	26	744	744	—	1,225	1,225	—	2,185	303	1,882	1,873	9	3,391
Education.....	2,361	1,415	946	980	16	4,106	4,187	0	7,290	4,570	2,534	2,042	72	13,718
Elementary and secondary.....	n.a.	n.a.	742	742	—	4,053	4,053	—	n.a.	n.a.	309	308	1	13,334
Higher.....	n.a.	n.a.	70	70	—	40	40	—	n.a.	n.a.	2,057	2,057	—	16
Other.....	n.a.	n.a.	134	118	16	14	85	0	n.a.	n.a.	318	247	71	281
Public assistance and relief.....	1,458	890	1,168	87	1,021	1,080	231	775	2,501	482	2,209	328	1,880	1,905
Civilian safety.....	204	32	232	232	—	1,000	1,066	—	641	14	627	627	—	2,640
Police.....	n.a.	n.a.	73	73	—	578	578	—	n.a.	n.a.	233	233	—	1,616
Fire.....	n.a.	n.a.	159	159	—	406	406	—	n.a.	n.a.	394	394	—	947
Prisons.....	n.a.	n.a.	153	153	—	83	83	—	n.a.	n.a.	302	302	—	177
Labor and manpower.....	153	—	153	—	—	1	1	—	302	—	302	—	—	1
Veterans' services and benefits.....	733	—	733	16	740	—	—	—	42	—	42	19	23	—
Commerce and housing.....	2,232	493	1,749	1,740	—	1,098	1,360	—	7,013	1,224	5,787	5,787	—	5,532
Regulation of commerce and finance.....	107	—	107	107	—	—	—	—	250	—	250	250	—	325
Transportation.....	2,121	493	1,641	1,641	—	1,492	1,492	—	6,735	1,200	5,535	5,535	—	3,396
Highways.....	2,119	478	1,641	1,641	—	1,492	1,492	—	6,059	1,187	4,872	4,872	—	3,129
Water and air.....	2	—	2	—	—	—	—	—	90	13	63	63	—	267
Housing and community develop- ment.....	13	13	—	—	—	118	118	—	26	24	—	—	—	256
Public utilities.....	—	—	—	—	—	300	300	—	—	—	—	—	—	1,485
Transit.....	—	—	—	—	—	14	14	—	—	—	—	—	—	140
Electricity.....	—	—	—	—	—	121	121	—	—	—	—	—	—	538
Water and gas.....	—	—	—	—	—	165	165	—	—	—	—	—	—	781
Other.....	1	—	1	—	—	—	—	—	2	—	2	—	—	67
Conservation of agricultural resources, conservation and recreational use of natural resources.....	204	—	204	204	—	—	—	—	394	—	394	394	—	133
National defense and atomic energy.....	148	4	136	136	—	395	285	—	630	38	592	592	—	824
Other unclassified.....	30	—	30	30	—	—	—	—	210	—	210	—	—	26
Other unclassified.....	545	—	545	—	—	411	314	—	531	534	—	—	—	384

1. Includes local payments to State governments which cannot be allocated by function. Amounts, in millions of dollars, as follows: 1948, \$97; 1950, \$304.  
n.a.—Not available.

Note.—Comparable data are available on request for 1929, 1940, 1942, 1950, 1952-58.

Source: U.S. Department of Commerce, Office of Business Economics.



of the greatly enlarged scale of government operations.

Responding to the greater yields to be obtained, shifts have occurred away from demand to time deposits, and from U.S. Treasury to corporate securities. The volume of investment by State and local agencies in their own obligations has shown little change.

#### Government enterprises expand

State and local government enterprise operations are to a large degree self-supporting and essentially of a commercial nature. As a consequence, their sales and purchases for current operations are consolidated in the national income accounts with the business rather than the government sector. Investment by these enterprises in capital equipment and new construction, however, is included as part of general government purchases of goods and services, not interest charges are consolidated with general government interest, and the current operating surplus has been treated as a component of government receipts. This treatment results in a correct statement of the current surplus or deficit for all government operations—including those of government enterprises—consistent with the definitions of saving in other parts of the economy as recorded in the national income and product framework. (See 1954 *National Income* supplement to the Survey, p. 49.)

Local enterprise activity accounts for more than two-thirds of the combined State and local enterprise operations, as seen in table 6. Operations of city public utility systems—water, electricity, transportation and gas—make up three-fourths of the local total. Municipally owned water supply systems are far more important than private companies in this area. Munic-

ipal electric supply systems exceed in number those privately owned, although the amount of power produced by these public systems is only a small fraction of the total U.S. output of electricity. Other operations of local enterprises include airports which have expanded tremendously in the postwar period, terminals, port facilities, and housing developments.

The major commercial activity of the State governments centers in the operation of liquor stores; 16 States maintain such liquor monopolies. The sharp rise

Table 9.—Object Breakdown of State and Local Government Purchases of Goods and Services

	(Millions of dollars)				
	1929	1948	1953	1957	1959
State government purchases of goods and services.....	1,547	3,795	7,645	11,322	14,599
Compensation of employees.....	503	2,293	3,524	5,305	6,399
Wages and salaries.....	543	2,105	3,293	4,852	5,808
Public education.....	180	561	907	1,408	1,800
Nonschool.....	323	1,632	2,385	3,443	4,400
Supplements to wages and salaries.....	18	132	232	541	590
New construction.....	679	1,466	2,506	4,724	6,090
Highways.....	549	1,142	2,147	3,784	n.a.
Educational.....	51	109	153	501	n.a.
Hospital and institutional.....	28	70	182	170	n.a.
All other.....	50	143	124	269	n.a.
Other purchases.....	307	1,121	1,413	1,803	2,199
Equipment.....	n.a.	123	104	258	n.a.
Other.....	n.a.	998	1,251	1,544	n.a.
Local government purchases of goods and services.....	5,524	10,305	17,223	24,903	32,699
Compensation of employees.....	2,805	6,294	9,022	14,120	15,299
Wages and salaries.....	2,826	6,061	8,302	13,223	14,100
Public education.....	1,413	3,048	4,523	7,264	9,000
Nonschool.....	1,412	2,916	4,370	6,999	7,200
Supplements to wages and salaries.....	70	233	420	900	1,200
New construction.....	1,052	2,174	4,637	6,362	6,790
Highways.....	719	303	955	901	n.a.
Educational.....	333	610	1,562	2,310	n.a.
Hospital and institutional.....	58	47	117	130	n.a.
Sewer.....	127	308	620	751	900
Water.....	120	238	383	583	600
All other.....	228	457	1,130	1,521	n.a.
Other purchases.....	1,077	1,907	2,962	4,472	7,609
Equipment.....	n.a.	216	466	781	n.a.
Other.....	n.a.	1,691	2,507	3,691	n.a.

Note.—Comparable data are available on request for 1940, 1942, 1947, 1949-52, 1954-55, 1958, and 1959.  
n.a.—Not available.

Source: U.S. Department of Commerce, Office of Business Economics.

in State enterprise activity from 1929 to 1948 as seen in the table is attributable to the repeal of prohibition, and the introduction of liquor monopolies. Toll road revenues have increased in importance in the past decade, and currently account for about one-sixth of the State enterprise total.

#### Note on source material

The expenditure, receipt, and related data in this review cover the operations of general government, government enterprises, and trust funds. The basic statistical materials come from the *Census of Governments* and other compilations of the Governments Division of the Bureau of the Census. The data in these Census reports follow conventional fiscal and budgetary accounting systems. Modification and regrouping of many of the component items are necessary to integrate this body of data with the other components of the national income and product and thus render them more useful for economic analysis in this frame of reference.

In summary, these adjustments require conversion of fiscal year Census figures to a calendar year basis, recording of taxes on an accrual rather than a cash collection basis, and omission of net purchases of land and existing structures. The largest quantitative modification of Census data occurs as the result of the different treatment of government enterprises, which are treated here on a net rather than gross basis. Finally, unemployment compensation fund operations are shown in the national accounts as part of Federal rather than State and local government. Statistical reconciliations on a fiscal year basis between the Census and national account data are regularly published in the annual detailed national income and product reviews. Alaska and Hawaii are excluded.